Heidrick and Struggles

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The 1982 survey of the characteristics of newly elected board members and their board companies.

About This Study

Early in 1982 Heidrick and Struggles conducted its seventh annual study of newly elected outside directors. Of the 1,134 individuals whose outside elections were announced in *The Wall Street Journal* during 1981, 409 or 36 percent replied in time to be included in the results. The firm examined and compared responses with earlier findings in appropriate areas and, in addition, focused on considerations studied for the first time this year.

Boards are a subject of special concern and interest to the business community. Heidrick and Struggles is grateful to the outside directors whose cooperation made possible the report which follows.

About Heidrick and Struggles

As one of the largest and most experienced management consulting firms specializing in executive and director search, Heidrick and Struggles works at the upper and middle echelons of management, in all functions, on behalf of client organizations in each of the world's major industries.

Senior members of the firm are increasingly called upon for counsel and professional assistance in the critical task of identification and selection of corporate directors. The search for outside directors capable of stimulating management thinking and aiding the chief executive in decision-making now demands analyzing board requirements, developing a strategy of research, identifying several candidates and contacting the prospects personally to determine their suitability. During this process the client's identity is held in confidence. The final decision rests with the client organization, which typically finds it advantageous to have had its anonymity preserved.

Heidrick and Struggles is pleased to add this *Director Data* to those previously published by the firm to make available trends of significance to directors and senior corporate management. A related study, *The Changing Board*, annually suveys the chairmen of the nation's 1300 largest corporations on the characteristics and practices of their boards.

Review and Forecast

by Eugene F. Jennings, Ph.D.

Heidrick and Struggles commissioned Dr. Eugene Jennings to prepare this introduction to our study. Dr. Jennings, a professor of management in the graduate school of business administration at Michigan State University, is a lecturer, author, and confidential advisor to chairmen and presidents of leading corporations.

What you see is what you will get. Most, if not all, of the major alterations in boards of directors have already taken place. No doubt more organizations will adopt these changes of the last decade, but the trends will not be substantially different.

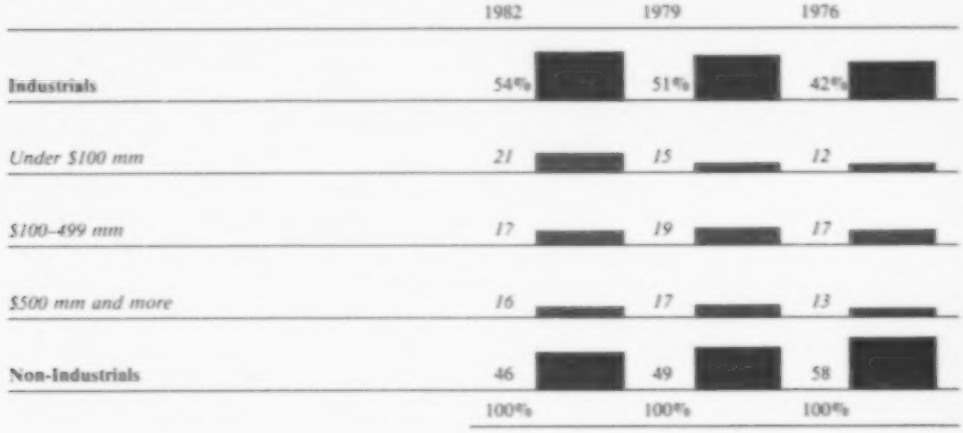
With the new boards, many questions arise. Will the new boards govern wisely? Will the corporation be better served by a management dominated by the board than by a board that is dominated by management? Will the selection committee find better chiefs than when the line of succession was largely determined by management? Will the new board know when and how to pull the plug on bad management in a timely and responsible fashion? Will the many committees carefully walk the line between policy and operations, and let management manage? Will outside directors be any more objective than insiders, and will independent directors be as informed as management-affiliated directors? Will the new board, with no designated public representatives, be responsive to tempestuous societal changes. Will the new board, with few females and blacks, encourage strong affirmative action programs? Most importantly, will the new board yield the present to the future and remove the short-term mentality that has dominated the management of the past?

Lastly, we all know what happens when a good board gets bad management. How does a good management deal with a bad board? Management tends to ignore an ineffectual board when it is largely passive. However, with the increasing sharing of power and authority with the board, how does management get the board that the corporation deserves? In short, what will be the new checks and balances that assure the shareholders that their fiduciaries are serving them well and wisely?

No doubt these and other questions will be answered in years to come. Meanwhile, one outcome appears certain. An assertive, outsider, independent-oriented board does not make the job of running a business any easier.

Companies Electing Outside Directors

Industrials represent a greater portion of those organizations electing outside directors during 1981 than has been true in previous studies. Smaller industrials account for a larger share of such elections now, despite a typically smaller board, since larger companies led the way in moving to greater outside representation.



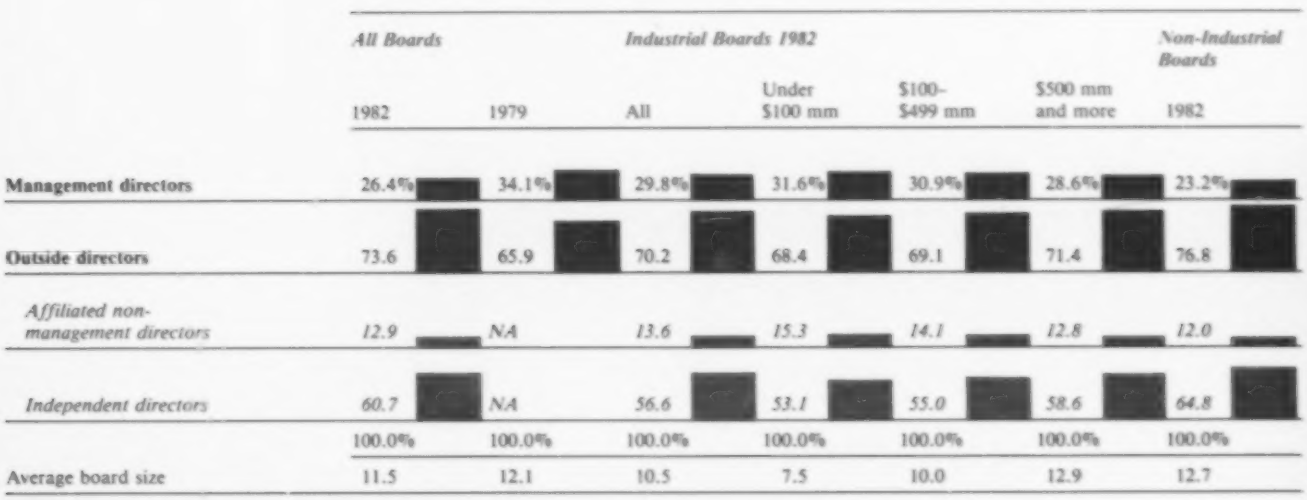
	1982	1979	1976
Industrials	54%	51%	42%
Under $100 mm	*21*	*15*	*12*
$100–499 mm	*17*	*19*	*17*
$500 mm and more	*16*	*17*	*13*
Non-Industrials	46	49	58
	100%	100%	100%

Board Size and Composition

Average board size has declined slightly over the past three years. Non-industrial boards, historically larger than industrial, have decreased by one member; industrial board size remains the same as in 1979. The reduction serves as yet another indicator of the vanishing ceremonial board, as organizations respond to government and public pressures for accountability.

Outside directors continue to gain, now representing nearly 74 percent of board composition in contrast with 66 percent just three years ago. Independent directors, those with no business or family ties to the board company, comprise 61 percent of major company boards.

Affiliated non-management directors—those outside directors with business or family ties to the board company—are predominantly outside legal counsel, investment bankers, and retired corporate officers. Consultants and commercial bankers represent only a small percentage of the group.



	All Boards		*Industrial Boards 1982*				*Non-Industrial Boards*
	1982	1979	All	Under $100 mm	$100–$499 mm	$500 mm and more	1982
Management directors	26.4%	34.1%	29.8%	31.6%	30.9%	28.6%	23.2%
Outside directors	73.6	65.9	70.2	68.4	69.1	71.4	76.8
Affiliated non-management directors	*12.9*	*NA*	*13.6*	*15.3*	*14.1*	*12.8*	*12.0*
Independent directors	*60.7*	*NA*	*56.6*	*53.1*	*55.0*	*58.6*	*64.8*
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Average board size	11.5	12.1	10.5	7.5	10.0	12.9	12.7

Chief Executive with Chairman Title

The chief executive officer also holds the title of chairman in 77 percent of the companies electing new outside directors, compared with about 75 percent in 1976.

While this dual title occurs more frequently overall among non-industrials, the greatest incidence occurs among the largest industrials. The chairman-CEO is found at more than eight of ten premier-size companies.

	All Boards		*Industrial Boards 1982*				*Non-Industrial Boards*
	1982	1976	All	Under $100 mm	$100–$499 mm	$500 mm and more	1982
Yes	76.7%	74.9%	75.0%	69.7%	70.1%	82.6%	78.6%
No	23.3	25.1	25.0	30.3	29.9	17.4	21.4
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Number of Board Meetings

The number of regular board meetings held annually by the typical company represented in the survey is 7.53, down from 7.64 in 1979. The decline evidences a continuation in the trend to greater work by committees of the board. Not surprisingly, the number of meetings grows along with company size. Non-industrials typically hold one more regular meeting than do industrials.

Meetings Per Year	*All Boards*	*Industrial Boards 1982*				*Non-Industrial Boards*
	1982	All	Under $100 mm	$100–$499 mm	$500 mm and more	1982
1–4	27.6%	27.3%	45.5%	34.3%	8.1%	28.0%
5–9	35.0	43.2	42.4	38.8	47.7	25.3
10–14	37.4	29.5	12.1	26.9	44.2	46.7
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Average	7.5	7.0	5.7	6.7	8.2	8.1

Board Committees and Their Chairmen

The incidence of independent directors as committee chairmen has advanced in the past three years for five common standing committees: audit, compensation, nominating, finance, and pension/retirement. Only three groups—executive, stock options and social responsibility—have seen a decline in independent leadership.

Independent directors are more frequently commitee heads on industrial boards.

The prevalence of most standing committees has increased considerably since 1979, with the nominating, stock options, finance and social responsibility committees gaining greatest favor over the span.

	All Boards		*Industrial Boards 1982*				*Non-Industrial Boards*
	1982	1979	All	Under $100 mm	$100–$499 mm	$500 mm and more	1982
Audit	96%	96%	94%	88%	94%	98%	99%
Independent director chairs	88%	84%	90%	89%	88%	91%	87%
Executive	84%	71%	80%	60%	83%	90%	87%
Inside director chairs	78%	68%	84%	92%	74%	86%	72%
Compensation	92%	81%	90%	79%	93%	96%	95%
Independent director chairs	78%	75%	75%	71%	74%	79%	81%
Nominating	73%	43%	71%	50%	61%	87%	76%
Independent director chairs	75%	68%	76%	69%	65%	82%	66%
Stock Options	46%	17%	42%	36%	52%	40%	43%
Independent director chairs	62%	67%	69%	75%	63%	71%	53%
Finance	53%	23%	49%	27%	33%	70%	57%
Independent director chairs	59%	56%	62%	36%	78%	63%	56%
Pension/retirement	39%	25%	39%	16%	38%	51%	38%
Independent director chairs	70%	66%	75%	75%	73%	75%	62%
Social Responsibility	25%	8%	20%	—	8%	39%	30%
Independent director chairs	68%	73%	82%	—	100%	79%	57%

Stock Acquisition by New Directors

More than three out of four directors have acquired stock in their board companies since their election. The most frequent holding is 100–999 shares, reported by almost half the buyers. Only one director in four has not acquired stock since election.

Stock acquisition by new directors is most prevalent among those serving large industrials and non-industrials. Women are more prone to acquire stock than are men, although the females make smaller purchases.

	All New Directors	*Industrial Directors 1982*				*Non-Industrial Directors*
	1982	All	Under $100 mm	$100–$499 mm	$500 mm and more	1982
Yes	76.5%	74.3%	62.1%	80.3%	80.0%	79.1%
No	19.8	21.1	30.3	18.2	16.5	18.2
Not Yet	3.7	4.6	7.6	1.5	3.5	2.7
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Amount of Compensation

Newly elected outside directors report an average compensation of $12,940, a 35 percent increase since 1979 and more than double the $6,300 of 1976. This sum represents payment for all full board and committee meetings.

Survey respondents earn at least $21,000 at one company in seven, compared to one in ten a year earlier. Thirty-five percent of the largest industrials are paying this premier rate, compared with 29 percent in 1981.

Women receive $15,900 on average, compared with $12,770 for men, doubtless because females are more frequently elected to boards of the largest industrials.

	All New Directors			*Industrial Directors 1982*				*Non-Industrial Directors*
	1982	1979	1976	All	Under $100 mm	$100–$499 mm	$500 mm and more	1982
Under $3,000	8%	9%	25%	10%	20%	7%	4%	6%
$3,000–$8,999	28	41	50	25	44	32	5	33
$9,000–$20,999	28	31	20	27	24	38	19	29
$15,000–$20,999	21	15	5	21	9	14	37	19
$21,000 and more	15	4		17	3	9	35	13
	100%	100%	100%	100%	100%	100%	100%	100%
Average	$12,940	$9,570	$6,300	$13,690	$8,120	$11,970	$19,350	$12,060

Adequacy of Board Compensation

Despite escalation of director pay in recent years, more than one out of five newly elected directors feels inadequately compensated for his board service. Not only have time requirements risen along with public scrutiny, but the income level of directors demonstrates their earning capacity is far greater at non-board pursuits.

The larger the organization served, the smaller the proportion of dissatisfied directors. Women are far less likely than their male peers to be dissatisfied, not only because of their smaller incomes, but because of their greater representation on high-paying large industrial boards.

	All New Directors	*Industrial Directors 1982*				*Non-Industrial Directors*
	1982	All	Under $100 mm	$100–$499 mm	$500 mm and more	1982
Feel adequately compensated	77.5%	76.2%	66.2%	76.9%	83.1%	79.1%
Do not feel adequately compensated	22.5	23.8	33.8	23.1	16.9	20.9
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Considerations in Joining Boards

During the seven years this study has been conducted, the opportunity to make a personal contribution has ranked first with outside directors considering a board seat, regardless of type or size of company. Status stands least important in the directors' decisions.

Seven out of ten new outside directors were first approached by a management director concerning their candidacy.

	All New Directors	*Industrial Directors 1982*				*Non-Industrial Directors*
	1982	All	Under $100 mm	$100–$499 mm	$500 mm and more	1982
Most important consideration in joining board						
Opportunity to make a personal contribution	35.4%	37.3%	38.1%	37.5%	36.8%	33.1%
Least important consideration in joining board						
Status of position	32.4%	37.4%	27.1%	34.4%	47.3%	26.4%

Current View of New Directorship

Although about a fifth of newly elected directors feel inadequately compensated for their board service, only one out of twenty would be less willing or unwilling to accept the new board seat were it to be offered again. This finding is in keeping with the relatively low rank of remuneration among reasons for acceptance.

Little difference exists in degree of willingness among directors at companies of varying type and size. Women are slightly more willing than men to repeat acceptance of the new board seat.

	All New Directors	*Industrial Directors 1982*				*Non-Industrial Directors*
	1982	All	Under $100 mm	$100–$499 mm	$500 mm and more	1982
More willing	37.8%	39.4%	28.8%	45.5%	43.4%	36.0%
Equally willing	57.5	53.7	65.2	47.0	49.4	61.9
Less willing	3.5	5.0	4.5	4.5	6.0	1.6
Unwilling	1.2	1.9	1.5	3.0	1.2	0.5
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Resignation from Boards

Of those with prior directorships, nearly half of the respondents have resigned from a corporate board. Most frequently given as reasons for demission are lack of time and conflict of interest. Change in position ranks third in number of mentions, followed by company sale/acquisition. Other reasons include lack of confidence in management, lack of interest in the board company, and differences with management.

Since this was not asked previously, there are no comparable data.

	All New Directors	*Industrial Directors 1982*				*Non-Industrial Directors*
	1982	All	Under $100 mm	$100–$499 mm	$500 mm and more	1982
Yes	45.5%	52.7%	43.9%	56.7%	55.8%	37.0%
No	48.2	40.0	45.5	34.3	40.7	57.7
No corporate directorships before this one	6.3	7.3	10.6	9.0	3.5	5.3
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Identification of CEO's Successor

The full board, or a committee of the board, assumes responsibility for identifying the chief executive officer's successor in six out of ten companies represented in the study. Although the incumbent CEO selects his heir apparent in 45 percent of the smallest companies, he does so in just 38 percent of premier-size industrials.

No comparable data exist as this question was not asked previously.

	All Boards	*Industrial Boards 1982*				*Non-Industrial Boards*
	1982	All	Under $100 mm	$100–$499 mm	$500 mm and more	1982
CEO	38.0%	39.9%	44.6%	38.3%	37.8%	35.9%
Full board	36.8	36.1	35.4	41.7	32.9	37.6
Committee of the board	23.4	23.1	16.9	21.7	28.0	23.8
Other	4.6	3.4	4.6	3.3	2.4	6.1

Results do not add to 100% due to multiple responses

Board Monitorship of Successor Performance

Boards of more than half the companies adding new outside directors last year monitor the performance of each probable successor to the chief executive.

The likelihood of monitorship increases in relation to volume at industrials. Directors at nearly seven out of ten of the largest industrials scrutinize the activities of candidates.

Overall, one in four respondents assumed his new responsibilities too recently to be knowledgeable concerning the existence of a board monitoring process.

	All Directors	*Industrial Directors 1982*				*Non-Industrial Directors*
	1982	All	Under $100 mm	$100–$499 mm	$500 mm and more	1982
Yes	55.6%	59.2%	50.8%	57.1%	67.1%	51.5%
No	19.9	20.4	29.5	19.6	13.9	19.3
Don't Know	24.5	20.4	19.7	23.3	19.0	29.2
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Personal Data

The average age of newly elected directors continues to advance, along with the representation of minorities. However, election of females remains proportionately the same as six years ago. Women continue to be found more frequently at non-industrials and the larger industrials.

	All New Directors			*Industrial Directors 1982*				*Non-Industrial Directors*
	1982	1979	1976	All	Under $100 mm	$100–$499 mm	$500 mm and more	1982
Average age	55	53	52	54	54	53	55	55
Females	5.4%	5.5%	5.4%	4.5%	1.5%	6.0%	5.8%	6.4%
Minorities	3.5%	2.5%	2.0%	3.0%	—	4.8%	3.9%	4.1%

Annual Cash Income of New Directors

Since 1979, the average cash income of newly named directors has risen by nearly $100,000 to the current level of $279,100. Those serving the largest industrials are also the individuals with the most substantial cash income. The disparity between incomes of male and female board members remains significant, with the men averaging more than twice as much money. Only 14 percent of respondents report less than a six-figure income. Seventeen percent report a total exceeding half a million dollars annually.

Only 2 percent of newly elected directors derive their income principally from directors' fees, the same proportion as last year. Indeed, the distribution among primary sources of directors' income has remained virtually constant over the last seven years.

	All Directors	*Industrial Directors 1982*				*Non-Industrial Directors*
	1982	All	Under $100 mm	$100–$499 mm	$500 mm and more	1982
$75,000 or less	6.2%	6.0%	7.9%	6.0%	4.7%	6.4%
$76,000–$100,999	7.8	9.3	20.6	6.0	3.5	6.4
$101,000–$150,999	13.2	11.6	11.2	10.4	12.9	15.0
$151,000–$200,999	12.9	13.9	7.9	17.9	15.3	11.8
$201,000–$300,999	22.1	22.6	27.0	22.4	20.0	21.4
$301,000–$400,999	12.7	13.0	7.9	13.5	16.5	12.3
$401,000–$500,999	7.7	7.4	1.6	11.9	7.0	8.0
$501,000 or more	17.4	16.2	15.9	11.9	20.1	18.7
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Average	$279,100	$274,800	$239,900	$275,300	$298,100	$284,000

Highest Educational Attainment

The proportion of newly elected directors lacking a college degree continues to decline. Ninety-three percent of the board members have earned at least an undergraduate diploma, compared with 90 percent in 1976. Nearly one in five possesses an MBA, the most popular advanced degree. Directors at the largest industrials report the highest level of education: only one in twenty lacks a degree, and 15 percent are doctorate holders. Overall, the educational attainment of industrial directors exceeds that of non-industrial board members.

	All New Directors	*Industrial Directors 1982*				*Non-Industrial Directors*
	1982	All	Under $100 mm	$100–$499 mm	$500 mm and more	1982
No degree	7.1%	5.9%	6.0%	7.5%	4.6%	8.5%
Bachelor's	36.0	34.5	37.9	34.3	32.6	37.6
MBA	18.8	22.3	22.7	23.9	21.0	14.8
Other master's or professional	11.7	13.2	15.2	7.5	15.1	10.0
JD	14.7	10.0	6.1	11.9	11.6	20.1
Doctorate	11.7	14.1	12.1	14.9	15.1	9.0
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

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